

# Inspector General

## United States

## Department *of* Defense



Ship Utilization in Support of the Global War on Terror

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## **Acronyms and Abbreviations**

GWOT	Global War on Terror
IG	Inspector General
LMSR	Large, Medium-Speed, Roll-on/Roll-off
MSC	Military Sealift Command
USD(AT&L)	Office of the Under Secretary of Defense, Acquisition, Technology, and Logistics
RDD	Required Delivery Date
RRF	Ready Reserve Force
SDDC	Surface Deployment and Distribution Command
SWA	Southwest Asia
USC	Universal Services Contract
USTRANSCOM	United States Transportation Command
VISA	Voluntary Intermodal Sealift Agreement



INSPECTOR GENERAL  
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July 15, 2009

MEMORANDUM FOR UNDER SECRETARY OF DEFENSE FOR ACQUISITION,  
TECHNOLOGY, AND LOGISTICS  
COMMANDER, UNITED STATES TRANSPORTATION  
COMMAND

SUBJECT: Ship Utilization in Support of the Global War on Terror (Report  
No. D-2009-093)

We are providing this report for review and comment. We considered management comments on a draft of this report from the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, and the United States Transportation Command when preparing the final report.

DoD Directive 7650.3 requires that all recommendations be resolved promptly. We received comments from the Deputy Under Secretary of Defense for Logistics and Materiel Readiness and the Chief of Staff, United States Transportation Command to recommendations made in this report. Deputy Under Secretary comments to Recommendations A.1.a., and A.1.b. were responsive and no further comments are required. Chief of Staff comments on Recommendations A.2.a., A.2.b., A.2.c., and A.2.e., and C. were partially responsive to the extent that they did not include implementation dates to the agreed-upon actions. We request additional comments from the Chief of Staff on those recommendations regarding dates of implementation. In addition, Chief of Staff comments on Recommendation B. were partially responsive and comments to Recommendation A.2.d. were not responsive. Therefore, we request additional comments to those recommendations by the United States Transportation Command by August 14, 2009.

If possible, send your comments in electronic format (Adobe Acrobat file only) to [audacm@dodig.mil](mailto:audacm@dodig.mil). Copies of your comments must have the actual signature of the authorizing official for your organization. We are unable to accept the / Signed / symbol in place of the actual signature. If you arrange to send classified comments electronically, you must send them over the SECRET Internet Protocol Router Network (SIPRNET).

We appreciate the courtesies extended to the staff. Please direct questions to me at (703) 604-9071.

Bruce A. Burton  
Deputy Assistant Inspector General  
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## Results in Brief: Ship Utilization in Support of the Global War on Terror

### What We Did

We evaluated the effectiveness of policies and procedures used to ensure that activated Government-owned and -chartered vessels were used to the maximum extent prior to procuring commercial transportation to Southwest Asia. We assessed the United States Transportation Command (USTRANSCOM) policies for selecting the most cost-efficient vessel by reviewing the existing United Services Contract for commercial liner services and reviewing records for 249 USTRANSCOM ship movements in support of the Global War on Terror. We also reviewed Surface Deployment and Distribution Command (SDDC) recommendations made to USTRANSCOM on transporting DoD cargo to Southwest Asia.

### What We Found

USTRANSCOM's commercial vessel selection process does not evaluate whether a liner or charter vessel is the most cost-effective alternative. Also, USTRANSCOM officials do not document Southwest Asia vessel selection rationale when selecting from SDDC recommendations. SDDC does not enforce penalties for late delivery of cargo under the Universal Service Contract-5. USTRANSCOM has no formal process to implement or document DoD requirements to annually size the United States sealift fleet in order to meet peacetime, contingency, and projected wartime requirements. We identified internal control weaknesses for the USTRANSCOM vessel selection process and for SDDC relating to the absence of contract management controls to enforce penalties for late deliveries of cargo.

### What We Recommend

The Under Secretary of Defense for Acquisition, Technology, and Logistics issue guidance to the Commander, USTRANSCOM that

DoD Instruction 4500.57 does not endorse a policy of liner vessels first and that all available commercial transportation assets be reviewed simultaneously to determine the most cost-effective commercial sealift transportation mode.

USTRANSCOM revise Policy Directive 24-7 to be consistent with the DoD Directive 4500.09E and DoD Instruction 4500.57 vessel selection process so that all commercial transportation resources (to include liners and charters) can be considered simultaneously, utilized in the most efficient and cost-effective manner, and document sealift options considered and justification for the final vessel selection. USTRANSCOM should also produce specific policy guidance that assigns roles and responsibilities for annual fleet sizing and employ and enforce contractor performance requirements and rate adjustments under the planned new Universal Services Contract.

### Management Comments and Our Responses

The Deputy Under Secretary of Defense for Logistics and Materiel Readiness (responding for the Under Secretary of Defense for Acquisition, Technology, and Logistics), agreed with the recommendation to issue guidance to USTRANSCOM implementing the DoD Instruction. USTRANSCOM agreed with our recommendations to revise its Policy Directive 24-7 to be consistent with the DoD Directive and Instruction so that liners and charters be considered simultaneously and in the most cost-effective manner and be documented; and include guidance for annual fleet sizing. However, USTRANSCOM did not include an implementation date for the revised policy and did not agree with our recommendations to include further guidance on activated organic ships and enforcing rate adjustments under the planned new Universal Services Contract. We request additional comments to those recommendations by USTRANSCOM by August 14, 2009.

## Recommendations Table

Management	Recommendations Requiring Comment	No Additional Comments Required
Under Secretary of Defense for Acquisition, Technology, and Logistics		A.1.a., A.1.b.
Commander, United States Transportation Command	A.2. and B.	C.

Please provide comments by August 14, 2009.

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# **Introduction**

## ***Objective***

The overall objective was to evaluate the effectiveness of policies and procedures used to ensure that activated Government-owned and Government-chartered vessels are used to the maximum extent prior to procuring commercial transportation to Southwest Asia (SWA).

We performed this audit as required by Public Law 110-181, “The National Defense Authorization Act for Fiscal Year 2008,” section 842, “Investigation of Waste, Fraud, and Abuse in Wartime Contracts and Contracting Processes in Iraq and Afghanistan.” Section 842 requires thorough investigation and auditing to identify potential waste, fraud, and abuse in the performance of DoD contracts, subcontracts, and task and delivery orders for the logistical support of coalition forces in Iraq and Afghanistan. Further, Section 842 also requires thorough investigation and auditing of Federal agency contracts, subcontracts, and task and delivery orders for the performance of security and reconstruction functions in Iraq and Afghanistan.

## **Background**

### ***United States Transportation Command***

United States Transportation Command (USTRANSCOM) is responsible for creating and implementing global deployment and distribution solutions in support of the President, Secretary of Defense, and Combatant Commander-assigned missions. USTRANSCOM is the single entity to direct and supervise execution of the strategic distribution system and has had the authority to establish a contracting activity to procure commercial transportation services since September 2003. Sealift mobility is crucial because more than 90 percent of all the equipment, fuel, and supplies needed to sustain the United States Military are carried by sea. USTRANSCOM is subdivided into three major Component Commands to carry out DoD missions: the Surface Deployment and Distribution Command (SDDC), the Military Sealift Command (MSC), and the Air Mobility Command.

### **Surface Deployment and Distribution Command**

SDDC is USTRANSCOM’s primary distribution manager with oversight over commercial ocean liner services that distribute cargo to United States forces on a global basis. SDDC is also responsible for surface transportation and is the interface between DoD shippers and the commercial transportation carrier industry.

### **Military Sealift Command**

MSC has oversight of sealift transportation services to deploy, sustain, and redeploy United States forces around the globe. MSC also operates a fleet of prepositioned ships around the world that are loaded with equipment and supplies to sustain DoD operations. Eleven Government-owned, large, medium-speed, roll-on/roll-off (LMSR) ships provide

sealift transportation in support of the Global War on Terror (GWOT). Each LMSR is capable of carrying more than 300,000 square feet of cargo and can travel up to 24 knots per hour. The LMSRs are ideal for carrying heavy armored vehicles, helicopters, and other break-bulk military equipment. Break-bulk equipment is cargo that cannot be containerized. Other vessels that support GWOT are the Ready Reserve Force (RRF) of roll-on/roll-off ships that are managed by the Maritime Administration.

## **Overview of Overseas Shipping**

The Government uses the commercial shipping industry to deploy cargo (from the United States to SWA) and redeploy cargo (from SWA back to the United States) in support of GWOT. Specifically, the Government contracts with carriers who provide liner and charter services to the Government. Liner services are contracted for under the Universal Services Contract (USC)-5, and charter services are contracted for individually as the need to charter a ship arises. According to USTRANSCOM officials, as of December 2008, USTRANSCOM incurred \$1.9 billion in expended USC-5 container and break-bulk worldwide transportation costs for FY 2005 through FY 2008.

### **Liner Vessels**

The liner services have set routes and make frequent scheduled stops at ports before offloading cargo at their final destination. Cargo moved on liner ships may be Government or commercial as the Government pays only for space on the ship.

### **Chartered Vessels**

In contrast, ships that are chartered by the Government are dedicated to the mission they are chartered for. Thus, the Government contracts and pays for the use of the entire ship. Ships can be chartered for one voyage or for a defined length of time. According to DoD Directive 4500.09E, “Transportation and Traffic Management,” if a ship is chartered for a period greater than 90 days, it is a DoD-controlled asset. Currently, according to USTRANSCOM officials, there are two long-term charter ships in support of GWOT, the *Westward Venture* and the *Virginian*.

### **Government Shipping**

USTRANSCOM also uses RRF ships and LMSR ships to transport cargo. RRF and LMSR ships are used when the United States commercial maritime industry is unable to support the requirement through either a liner or a charter ship. While in reduced operating status, RRF ships are maintained by the Department of Transportation’s Maritime Administration, and LMSRs (used for both sealift and prepositioning) are under the command of MSC. RRFs can take anywhere from 4 to 20 days, while LMSRs can take from 4 to 90 days to be fully operational from the day activation orders are received. When RRF and LMSR ships are activated, the ships come under the operational control of MSC.

### **Voluntary Intermodal Sealift Agreement**

The Voluntary Intermodal Sealift Agreement (VISA) program is a partnership between the United States Government and the maritime industry to provide DoD with “assured access” to commercial sealift and intermodal capacity to support the contingency

deployment and sustainment of United States Military forces. It commits carriers to provide shipping capacity and allows shippers to carry military cargo alongside commercial cargo. With a mixture of Government-owned and commercial ships, MSC serves three primary functions: surge sealift, prepositioned sealift, and sustainment sealift. Maritime Administration officials noted that SDDC executes the VISA for commercial non-chartered vessels, while MSC executes the VISA for commercial chartered vessels.

## **Criteria**

### ***Cargo Laws and Regulations***

The Maritime Administration's Cargo Preference Program was created to promote and facilitate a United States maritime transportation system that is accessible and efficient in the movement of goods and people. The program oversees the administration of and assures compliance with United States cargo preference laws and regulations that require shippers to use United States flag vessels to transport Government cargo. The Cargo Preference Act of 1904 requires all United States Military and Defense agencies to use only United States flag vessels for ocean transportation of supplies unless those vessels are not available at fair and reasonable rates. The Cargo Preference Act of 1954 requires that at least 50 percent of the gross tonnage of supplies is transported on privately-owned United States flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.

### ***National Security Directive 28***

The purpose of National Security Directive 28, “National Security Directive on Sealift,” October 5, 1989, (Directive 28) is to ensure that the United States maintains the capability to meet sealift requirements in the event of crisis and war. Directive 28 establishes that the United States-owned commercial industry, to the extent that it is capable, will be relied upon to provide sealift in peace, crisis, and war. This capability will be augmented during crisis and war by reserve fleets composed of ships with national defense features that are not available in sufficient numbers or types in the active United States-owned commercial industry.

### ***DoD Directive 4500.09E, “Transportation and Traffic Management”***

DoD Directive 4500.09E, “Transportation and Traffic Management,” September 11, 2007 (Directive 4500.09E) dictates that, “DoD transportation requirements shall be met by using the most cost effective commercial transportation resources to the maximum extent practicable unless there is a documented negative critical mission impact.” Directive 4500.09E, Section 4.2.2 states that DoD cargo shall only be transported by sea in vessels belonging to the United States unless United States flag vessels are not available.

## ***DoD Instruction 4500.57, “Transportation and Traffic Management”***

DoD Instruction 4500.57, “Transportation and Traffic Management,” March 18, 2008, (Instruction 4500.57) states that when scheduled commercial liner service would not cost-effectively meet DoD requirements, USTRANSCOM may charter vessels. Once chartered, the vessels are to be used to the maximum extent practicable. Also, once a Government (organic) ship is activated, it should receive priority over commercial alternatives if the Government ship can support the mission. Section 4.4.5 states that, “U.S. Government sealift vessels . . . normally are maintained in a state of reserve readiness . . . When activated, their use should receive priority over commercial alternatives if they can support mission requirements within the scope and timing of their activation orders.” DoD Instruction 4500.57 gives the order of priority for the use of commercial carriers when scheduled commercial airline or ocean liner service would not cost-effectively meet DoD requirements, or when dedicated assets would best fulfill operational requirements, USTRANSCOM may charter aircraft vessels. Thus DoD Instruction 4500.57 allows USTRANSCOM to charter vessels if the command determines that liner services are not cost-effective or when dedicated assets would best fulfill operational requirements. Section 4.4.5 also states that when more than one sealift alternative is available (liner, charter, or activated Government-owned), relevant factors such as vessel schedules, customer requirements, cost, and capacity will be evaluated and documented to support the justification for each sealift vessel selection decision.

## ***USTRANSCOM Policy Directive 24-7, “Strategic Sealift Vessel Selection Policy”***

USTRANSCOM Policy Directive 24-7, “Strategic Sealift Vessel Selection Policy,” November 21, 2007, states that USTRANSCOM shall select the course of action from among the recommendations proposed by USTRANSCOM Component Commands that most effectively and most efficiently meets mission requirement in the following priority:

- a. Maximize use of commercial vessels already under charter to the United States;
- b. Maximize use of activated Surge Sealift vessels (Government-owned ships) without deviating more than 2 days from the voyage plan contemplated by the vessel’s original activation order, unless pre-approved or subsequently approved by the Commander, USTRANSCOM upon review of recent and projected commercial utilization rates;
- c. Maximize use of vessels in regularly scheduled commercial service in accordance with VISA;
- d. Hire vessels available for charter in accordance with VISA priorities; and
- e. Activate Government-owned vessels (organic ships) for unique cargo requirements where commercial lift is otherwise unavailable, and fill the activated vessel to capacity.

## **Review of Internal Controls**

We identified an internal control weakness for USTRANSCOM relating to the command's commercial vessel selection process as the process does not evaluate whether a commercial liner or a Government-chartered vessel is the most cost-effective alternative, as defined by DoD Instruction 5010.40, "Managers' Internal Control (MIC) Program Procedures," January 4, 2006. USTRANSCOM also did not establish internal controls to document management decisions that implement or deviate from SDDC recommendations to activate a Government-owned vessel or to document DoD requirements to annually size the United States sealift fleet in order to meet peacetime, contingency, and projected wartime requirements. USTRANSCOM implementation of report recommendations will correct the deficiencies.

In addition, we identified an internal control weakness for SDDC relating to absence of contract management controls to enforce penalties for late deliveries of cargo, as defined in DoD Instruction 5010.40. USTRANSCOM implementation of report recommendations combined with enforcement of the new universal services contract will correct the internal control deficiencies. We will provide a copy of this report to the senior official responsible for internal controls at SDDC and USTRANSCOM.

# **Finding A. The Commercial Ship Selection Process**

The USTRANSCOM commercial vessel selection process does not evaluate whether a commercial liner or a Government-chartered vessel is the most cost-effective alternative and does not simultaneously consider commercial liner and charter alternatives. In addition, USTRANSCOM officials do not document SWA vessel selection rationale when selecting from SDDC-recommended courses of action. This occurs because USTRANSCOM vessel selection policies are not consistent with the DoD transportation and traffic management directive and instruction. As a result, USTRANSCOM may be spending more to procure commercial liner transportation when less expensive ships may be available for charter.

## **USTRANSCOM Sealift Vessel Offering and Selection Process**

The Government moves cargo in containers (a truck trailer body that can be detached from the chassis for loading onto a ship) or as break-bulk shipments. Billing rates for containers and break-bulk shipments are both billed by measurement ton. A measurement ton equals 40 cubic feet. The cost of a liner ship is dependent on the cargo being moved. The larger the cargo requirement (either in terms of measurement tons or number of containers), the higher the cost will be using liner services. In contrast, the cost of a chartered ship will be the same regardless of the cargo moved because the Government pays to charter the whole ship. The USTRANSCOM commercial selection process includes review steps performed by SDDC and MSC.

### ***SDDC and MSC Role in the Ship Selection Process***

The ship selection process begins when USTRANSCOM determines that the transportation mode for a cargo requirement will be met by shipping the cargo across the ocean. First, SDDC determines whether existing MSC-chartered or already activated sealift ships are available. If neither is available, SDDC offers the cargo directly to commercial carriers at a cargo aggregation meeting. Cargo requirements are given to the liner carriers whose schedules will allow them to pick up and deliver the cargo. Although the volunteer carrier commitment to take cargo is not binding, SDDC reserves the cargo for those carriers, then passes the rest of the cargo not taken by the liner carriers to MSC. MSC officials may charter a commercial ship for cargo that was not reserved for a liner ship at the cargo aggregation meeting. Finally, if no commercial ship is available for charter, MSC can request activation of an organic ship.

### ***USTRANSCOM Authority***

SDDC officials are required to evaluate sealift options in the form of a course of action if they are going to request activation of an organic ship. The USTRANSCOM Commander has the authority to choose from the alternatives contained in the courses of action developed by SDDC. These alternatives can include activating an organic vessel, utilizing a chartered vessel, or utilizing a commercial liner or a combination of vessels.

Recommended SDDC options summarize the requirement, the alternatives available, the estimated cost of each vessel, and the preferred alternative. USTRANSCOM has the final decision on the alternative but currently does not document the final decision.

### ***Sequential Consideration***

MSC and SDDC segmentation of commercial ship selection process duties does not allow for all commercial transportation resources to be considered simultaneously but rather uses a sequential process. SDDC provides commercial liner solutions and transfers the requirement to MSC to provide a commercial charter solution only if a liner solution is not identified by SDDC. Therefore, the USTRANSCOM commercial vessel selection process does not evaluate whether a commercial liner or a Government-chartered vessel is the most cost-effective alternative to the extent required by DoD Directive 4500.09E and DoD Instruction 4500.57. Thus, USTRANSCOM, SDDC, and MSC officials cannot make the determination that the most cost-effective commercial transportation resources are being utilized.

### ***Documentation of Course of Action Decisions***

USTRANSCOM officials did not document SWA vessel selection rationale when selecting an alternative from SDDC-recommended actions. We reviewed seven SDDC unit and cargo movements that had three course of action options each. We were unable to find any documentation supporting USTRANSCOM selection from among the SDDC presented options. We concluded that the USTRANSCOM selections were not in compliance with DoD Instruction 4500.57 requirements, that when more than one alternative is available, USTRANSCOM should document the circumstances supporting the decision.

For example, one of the movements we reviewed included three potential courses of action pertaining to the movement of Mine Resistant Ambush Protected vehicles and unit cargo to SWA out of Charleston, South Carolina. The three are described below:

- Course of Action 1 recommended activating an LSMR to move the vehicles and unit cargo. The analysis stated that this action would maintain validation and vessel selection process integrity. SDDC estimated the cost to move cargo under the course of action at \$7.4 million.
- Course of Action 2 recommended using various commercial vessels and a chartered vessel to move the cargo. The analysis stated that, while this action satisfied the requirement, it allowed commercial carriers “to pick and choose what cargo moves on their vessels.” SDDC estimated the cost to move the cargo under the course of action at \$14.9 million.
- Course of Action 3 recommended utilizing a combination of commercial liners, chartered vessels, and a Government ship. The analysis stated the option allowed commercial industry to “pick and choose” what cargo to move on their vessels. SDDC estimated the cost to move the cargo under the course of action at \$9 million.

While all three potential alternatives satisfied the cargo move, SDDC recommended Course of Action 2 because it supported the established USTRANSCOM commercial first policy. However, SDDC noted drawbacks in Course of Action 2 including a potential breakdown in the validation process and a potential devaluing of the MSC activation process. Additionally, SDDC officials believe that the current commercial first policy established a bad precedent allowing the commercial industry to pick and choose what DoD cargo they accept based on financial gain. USTRANSCOM officials subsequently stated in comments to this report that Course of Action 2 was selected because the Mine Resistant Ambush Protected vehicles were in such high demand, every available ship that could move them was considered an option (including liner, charter, and activated Government vessels), with a priority for on-time delivery. However, USTRANSCOM did not document the factors for its selection decision.

## **Consistency of USTRANSCOM Policies**

USTRANSCOM vessel selection policies are not consistent with National Security and DoD transportation and traffic management directives and instructions. For example, Directive 28 and Directive 4500.09E require use of commercial transportation to the maximum extent while USTRANSCOM Policy Directive 24-7 specifies separate requirements regarding liner and charter services.

Directive 28 requires that sealift requirements shall be met using the United States-owned commercial ocean carrier industry to the extent it is capable in peace, crisis, and war. Directive 28 further states that “development and implementation of specific sealift and supporting programs will be made with full consideration of the costs and benefits involved.” Further, Directive 4500.09E requires that DoD transportation requirements be met by using the “most cost effective commercial transportation resources to the maximum extent practicable unless there is a documented negative critical mission impact.” Commercial transportation consists of both liner service ships and ships available for commercial charter. Directive 28 and Directive 4500.09E do not distinguish between commercial ships available for charter and commercial ships in regularly scheduled liner service. Both policies require only that commercial transportation services be used to the maximum extent with costs considered.

Conversely, USTRANSCOM, MSC, and SDDC officials used the vessel selection guidance given in USTRANSCOM Policy Directive 24-7. This policy gives priority to the liner services where appropriate and reasonably priced. According to USTRANSCOM Policy Directive 24-7, ships available for charter are hired only if liners are not able to meet mission requirements or are not reasonably priced.

## ***Office of the Under Secretary of Defense View of Vessel Selection Requirements***

Instruction 4500.57, paragraph 4.4.3 states that, “When scheduled commercial . . . ocean liner service would not cost-effectively meet DoD requirements, or when dedicated assets would best fulfill operational requirements, USTRANSCOM may charter . . . vessels.” USTRANSCOM and its components interpret paragraph 4.4.3 as preference should be given to liner ships. However, Office of Under Secretary of Defense for Acquisition,

Technology, and Logistics [USD(AT&L)] officials stated to us that the intent of the DoD Instruction is to implement a policy of commercial first selection and does not endorse a policy of liner first selection. The officials noted that DoD Instruction 4500.57, paragraph E5.4, “Commercial Priorities,” does not make any distinction between liner and charter commercial service, instead it refers to “U.S. flag vessel capacity.”

USD(AT&L) officials are working with USTRANSCOM to ensure that Policy Directive 24-7 is appropriately aligned with DoD Instruction 4500.57. USD(AT&L) officials believed that USTRANSCOM could better implement DoD Instruction 4500.57 requirements in four areas. Specifically, USD(AT&L) officials believed that the USTRANSCOM Policy Directive 24-7 inappropriately:

- adheres to a “liner-first” policy at the expense of chartered commercial services;
- contains conflicting language regarding allowing chartered services and appears to establish cost as a single criterion for chartering;
- does not require evaluations of relevant factors when more than one course of action is available, that is, commercial liner, commercial charter, or activating a Government-owned vessel; and
- establishes an arbitrary 2-day limit when deviating from a (Government) organic ship’s activation orders.

USD(AT&L) and USTRANSCOM officials are working to ensure that USTRANSCOM procedures are consistent with DoD Instruction 4500.57 language that when more than one sealift alternative is available, relevant factors such as vessel schedules, customer requirements, cost, and capacity be evaluated and documented to support the justification for each sealift vessel selection decision. The USD(AT&L) officials requested that USTRANSCOM replace the Policy Directive 24-7 2-day time frame with DoD Instruction language that activated, organic ships receive priority over commercial alternatives if they can support mission requirements within the scope and timing of their activation orders.

USD(AT&L) officials believed that if USTRANSCOM were to conduct cost-effective evaluations to determine use of a liner or of a new charter prior to awarding cargo to potential carriers at a cargo aggregation meeting, the USTRANSCOM vessel selection policy would then be in compliance with the DoD Instruction. We agree that evaluation of all available sources would ensure the most efficient and cost-effective option. As of July 9, 2009, USD(AT&L) officials noted to us that USTRANSCOM Policy Directive 24-7 had not been revised to include the proposed USD(AT&L) changes.

## **Commercial Cost Analysis**

USTRANSCOM may be spending more to procure commercial liner transportation when less expensive ships may be available for charter.

### **Potential Cost Data Comparison Situations**

In order to identify situations where commercial liner transportation costs could be compared to voyage charter ships, we requested and received SDDC and MSC cost data

for 29 of the 180 liner service movements made from January 1, 2007, through March 31, 2008. The 29 liner movements were valued at \$128 million. We also received from MSC cost data for 23 charter service movements made during the time frame of January 1, 2007, through March 31, 2008. The 23 charter service movements were valued at approximately \$47 million.<sup>1</sup>

We selected one ship movement composed of similar data from each liner and charter category in order to compare cost and efficiency of similar liner and charter redeployments. The examples include the actual length of time from port of embarkation to port of debarkation, actual amount of cargo moved, and the actual total cost of liner and charter movements. The examples show that USTRANSCOM should perform cost analyses when a liner service ship and a ship available for commercial charter are determined to be available to move cargo, particularly in instances when the cargo requirement is larger than a specified amount.

The first example shows similar redeployments of DoD break-bulk cargo from Ash Shuaybah, Kuwait, to Beaumont, Texas. In the example illustrated in Table 1, the chartered ship movement cost \$4.9 million less than the liner service movement and moved over 8,000 more measurement tons of cargo. However, the liner movement took less time, at 27 versus 43 days, as the chartered ship (*Westward Venture*) movement stopped to offload cargo in Antwerp, Belgium.

**Table 1. Commercial Ship Cost Comparison 1**

	SHIP NAME	SAIL DATES	MEASUREMENT TONS	TOTAL COST
Liner	<i>Great Land</i>	October 23–November 19, 2007	18,422	\$7,399,000
Charter	<i>Westward Venture</i>	January 19–March 3, 2007	26,800	\$2,480,000

In the second example, illustrated in Table 2, both liner and charter ships redeployed directly from Ash Shuaybah, Kuwait, to Charleston, South Carolina. The chartered ship (*American Tern*) cost \$2.2 million less than the liner movement while moving an additional 567 measurement tons of cargo. However, in this instance, the liner service ship may have been marginally more time-efficient because it took 7 fewer days to arrive in Charleston, South Carolina. When compared to the example in Table 1, the second example illustrates that the cost to use liner ships can increase greatly depending on the amount of cargo delivered.

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<sup>1</sup> In addition, 29 USTRANSCOM organic ship movements to SWA, valued by USTRANSCOM at \$19.7 million, occurred from January 1, 2007, through March 31, 2008.

**Table 2. Commercial Ship Cost Comparison 2**

	<b>SHIP NAME</b>	<b>SAIL DATES</b>	<b>MEASUREMENT TONS</b>	<b>TOTAL COST</b>
Liner	<i>Honor</i>	September 30–October 23, 2007	12,221	\$4,328,000
Charter	<i>American Tern</i>	June 3–July 3, 2007	12,788	\$2,103,000

## Conclusion

Conflicting vessel selection process policies prevent USTRANSCOM and its Component Commands from making cost-effectiveness determinations and from choosing the best commercial resource to move cargo. Specifically, USTRANSCOM and its Component Commands follow USTRANSCOM Policy Directive 24-7, which separates commercial resources (liner and charter) and requires sequential SDDC and MSC consideration of available liners and available commercial charter ships. Since all commercial resources available to support a movement are not compared simultaneously, and USTRANSCOM-level decisions are not documented, USTRANSCOM is unable to make cost-effectiveness decisions and therefore is not in compliance with DoD policy.

## Management Comments on the Finding

Responding for the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics, the Deputy Under Secretary of Defense for Logistics and Materiel Readiness did not specifically agree or disagree with the finding, but did provide technical comments on two topics discussed in the finding. The Chief of Staff, USTRANSCOM agreed with the finding but identified specific data he believed was incorrect. See Appendix B for a summary of management comments provided and our response.

## Recommendations, Management Comments, and Our Response

**A.1. We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics issue guidance to the Commander, United States Transportation Command stating that:**

- a. DoD Instruction 4500.57, “Transportation and Traffic Management,” does not endorse a policy of liner first election; and**
- b. All available commercial transportation assets (to include liners and charters) be reviewed simultaneously to determine the most cost-effective mode of commercial sealift transportation.**

## ***OUSD Comments***

The Deputy Under Secretary of Defense for Logistics and Materiel Readiness (responding for the USD[AT&L]), agreed with Recommendation A.1. and noted it would issue guidance to the Commander, USTRANSCOM to ensure that their procedures are consistent with DoD Policy.

## ***Our Response***

The Deputy comments were responsive to the intent of the Recommendation A.1. and no further comments are required.

## ***USTRANSCOM Comments***

Although not required to comment, the Chief of Staff, USTRANSCOM disagreed with the recommendation, believing that the guidance in current DoD Policy, Directives, and Instructions is sufficient. USTRANSCOM also noted that existing DoD guidance regarding the efficiency, effectiveness, and VISA priority was sufficient. However, USTRANSCOM noted that it would adjust its internal operating procedures to align them with existing DoD Policy, Directives, and Instructions.

## ***Our Response***

The current USTRANSCOM interpretation of DoD Instruction 4500.57, “Transportation and Traffic Management,” is not sufficient to prevent a policy of liner first election. Rather, USTRANSCOM should require that all available commercial transportation assets (to include liners and charters) be simultaneously reviewed to determine the most cost-effective mode of commercial sealift transportation. As noted in the draft report, MSC and SDDC segmentation of commercial ship selection process duties does not allow for all commercial transportation resources to be considered simultaneously but rather uses a sequential process. SDDC provides commercial liner solutions and transfers the requirement to MSC to provide a commercial charter solution only if a liner solution is not identified by SDDC. Therefore, USTRANSCOM commercial vessel selection process does not evaluate whether a commercial liner or a Government-chartered vessel is the most cost-effective alternative to the extent required by DoD Directive 4500.09E and DoD Instruction 4500.57. Thus, USTRANSCOM, SDDC, and MSC officials cannot make the determination that the most cost-effective commercial transportation resources are being utilized.

**A.2. We recommend that the Commander, United States Transportation Command revise United States Transportation Command Policy Directive 24-7, “Strategic Sealift Vessel Selection Policy,” to be consistent with Department of Defense Directive 4500.09E, “Transportation and Traffic Management,” and Instruction 4500.57, “Transportation and Traffic Management,” by including language noting:**

- a. When scheduled commercial ocean liner service would not cost-effectively meet DoD requirements, or when dedicated assets would best fulfill operational requirements, United States Transportation Command may charter vessels;

- b. A list of commercial priorities contained in DoD Instruction 4500.57;
- c. When more than one sealift alternative is available, relevant factors such as vessel schedules, customer requirements, cost, and capacity will be evaluated and documented to support the justification for each sealift vessel selection decision;
- d. Activated organic ships used should receive priority over commercial alternatives if they can support mission requirements within the scope and timing of their activation orders; and
- e. Require United States Transportation Command to support sealift options considered and document the justification for the final vessel selection.

### ***USTRANSCOM Comments***

USTRANSCOM agreed with Recommendations A.2.a., A.2.b., A.2.c., and A.2.e. and disagreed with Recommendation A.2.d. Regarding recommendation A.2.a., USTRANSCOM stated it would adjust its internal operating procedures to ensure that all factors, including cost, will be considered when making vessel selection. In regards to Recommendation A.2.b., USTRANSCOM stated that its current and proposed USTRANSCOM procedures use the same commercial priorities as DoD Instruction 4500.57. In regards to Recommendation A.2.c. USTRANSCOM stated that its revised operating procedures will contain the recommended language to ensure decisions are documented. In regards to Recommendation A.2.e. USTRANSCOM stated that it will document vessel selection decisions.

USTRANSCOM disagreed with Recommendation A.2.d. stating that activated organic ships and commercial vessels chartered to the United States have priority over other commercial alternatives in the current USTRANSCOM operating procedures.

### ***Our Response***

USTRANSCOM comments to Recommendations A.2.a., A.2.b., A.2.c., and A.2.e. were responsive, but the comments did not include an implementation date for the recommended revision to USTRANSCOM Policy Directive 24-7. In addition USTRANSCOM comments were not responsive to the intent for Recommendation A.2.d. We disagree that current USTRANSCOM operating procedures give priority to activated organic ships and commercial vessels chartered to the United States over other commercial alternatives. As noted in the draft report, USTRANSCOM, MSC, and SDDC officials used the vessel selection guidance given in USTRANSCOM Policy Directive 24-7. This policy gives priority to the liner services where appropriate and reasonably priced. According to USTRANSCOM Policy Directive 24-7, ships available for charter are hired only if liners are not able to meet mission requirements or are not reasonably priced. Thus, we request further comment from USTRANSCOM regarding a proposed implementation date for Recommendation A.2. as well as further comment regarding Recommendation A.2.d.

## **Finding B. Surface Deployment and Distribution Command's Administration of Liner Contract**

SDDC does not enforce certain aspects of the USC-5 liner services contracts in keeping with an unwritten USTRANSCOM/contractor agreement whereby neither charges the other for late deliveries. According to SDDC officials, the Government does not enforce penalties associated with contractor failure to meet required delivery dates or other penalties for poor performance while contractors do not request payments associated with Government no-shows. The Government and contractors made this agreement because they believed it was difficult to determine which party was responsible for late deliveries. We were unable to determine a specific dollar amount of the forgone penalties due to lack of SDDC contract documentation.

### **Overview of Universal Services Contracts**

USC-5 is a group of ocean transportation contracts used to transport cargo in support of Operation Iraqi Freedom and Operation Enduring Freedom. The contracts are based on a fixed-price, economic price adjustment, indefinite-delivery, indefinite-quantity solicitation, WYE-05-R-0014. Twenty-two carriers were awarded contracts under USC-5, estimated by SDDC to have an approximate annual value of \$400 million. The base period of the contracts was March 2006 through February 2007. In addition, each contract contained options that have extended the contracts' duration from March 2007 through February 2009.

### ***Cargo Containers and Break-Bulk Cargo***

Carriers move cargo containers and break-bulk cargo. A container is a truck trailer body that can be detached from the chassis for loading into a vessel, a rail car, or stacked in a container depot. A container may be 20 feet or 40 feet in length and about 8 feet wide and about 9 feet high. Break-bulk cargo is loose, non-containerized cargo, such as light or heavy vehicles or helicopters.

### ***USC-5 Performance Requirements***

The USC-5 contract provides international cargo transportation and distribution services using contract carriers offering regularly scheduled commercial liner service for requirements that may arise anywhere in the world. One of the performance requirements is that the cargo delivery is required by dates specified in the accepted booking. If the carrier fails to deliver the cargo by the required delivery date (RDD) specified in the accepted booking, the contractor may be assessed a lump sum penalty of \$250 for each container, and \$7 for each break-bulk shipment per minimum measurement ton. Conversely, if the Government fails to provide the minimum contractually guaranteed cargo on a designated route, the contractor may bill the Government \$250 per each container and \$7 per minimum measurement ton. However, the contracts direct that

these penalties do not apply for shipments to Iraq, Afghanistan, and Pakistan. Conversely, if the Government fails to cancel a booking at least 1 working day in advance of the cutoff for the vessel or if cargo is not available to be put on board the vessel through no fault of the contractor, the cargo is designated as a “no show.” The contractor may bill the Government \$250 per each container no-show and \$7 per minimum measurement ton for each break-bulk cargo no-show.

### **USC-6 Contract**

USC-6 request for proposal HTC711-08-R-0011, issued in August 2008, provides for international cargo transportation using ocean carriers’ regularly scheduled commercial liner service to support DoD peacetime and contingency operations. The USC-6 contracts include a 1-year base period from April 2009 through March 2010, with 1-year option periods starting from April 2010 through March 2012.

### **Delivery Penalties Not Enforced**

SDDC does not enforce certain aspects of the USC-5 liner services contracts in keeping with an unwritten USTRANSCOM/contractor agreement that neither will charge the other for penalties for late deliveries or poor performance. The Government and contractor made the agreement because they believed it was difficult to determine which party was responsible for the late delivery. SDDC acts as a liaison between Government shippers and commercial carriers. SDDC is responsible for establishing and maintaining contracts with the carrier industry to deploy and distribute DoD supplies worldwide. SDDC officials acknowledged that the Government does not enforce penalties to the contractor associated with the failure to meet RDD. Also, the contractor does not request payment associated with booked cargo that is not available to be put on board the vessel because of Government inaction. According to SDDC officials, the Government sometimes was responsible for no-shows.

### **Frequency of Delivery Delays**

We requested that USTRANSCOM provide a list of all delivery delays on USC-5 for the period of July 2007 through September 2008. We identified 39 instances of RDD problems on commercial ship movements. Nine of the 39 shipments were to or from SWA but these shipments are exempt from liquidated damages for late delivery per the contract. The tracking report listed 14 shipments where cargo was not available to be put on the ship through the fault of the Government. USTRANSCOM officials stated that no damages were charged to the contractor or the Government for the RDD discrepancies.<sup>2</sup>

### **SDDC Management Action**

SDDC is implementing another contract performance approach under the USC-6 contracts. The Government will monitor contractor performance using performance averages based on a 90-day rolling average refreshed each month. Performance averages and associated Contractor Performance Scores shall become effective on the first day of

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<sup>2</sup> USD(AT&L) officials believed the number of late USC-5 shipments to be far greater. For example, the officials cited an October 2008 VISA meeting where one of the largest USC-5 carriers provided RDD metrics for August 2008 indicating that the carrier met on-time requirements only 48 percent of the time.

the following month and supersede previous scores. The averages consist of an assessment of on-time delivery, in-transit visibility, and condition. Based on the computed performance score for these factors, the contractor is assigned one of three ratings: Category A, preferred contractors; Category B, second preferred contractors; and Category C, third preferred contractors. The rating evaluates past delivery performance by measuring required delivery date within 24 hours. The highest rated contractors are designated as Category A preferred. Lesser rated contractors are designated as Category B or C preferred contractors. Therefore, this allows contractors with performance score improvements to move from a third preferred contractor to a second or first preferred contractor. Under the USC-6 contract structure, SDDC believes contractors will be motivated to make on-time delivery because it is recorded and incorporated in a performance formula that gives each contractor a rating and easily allows comparisons between competing contractors on the basis of on-time performance. There is no penalty assessed on a per unit basis as outlined in the USC-5 contracts. Rather, contractors with on-time deliveries are rewarded with first preference on cargo bookings.

The initial USC-6 Request for Proposal included a clause noting that Category B and C contractors, if offered a booking, must agree to a 3 percent or 5 percent reduction in price, respectively, to their single factor transportation rate. On September 10, 2008, Request for Proposal Amendment 02, removed the rate reduction requirement.

USTRANSCOM contracting office personnel stated that the language was removed in response to industry comments and because USTRANSCOM determined the clause was not consistent with standard commercial practices. However, USTRANSCOM could not provide any documentation to support the determination. Industry comments noted that the initial USC-6 Request for Proposal did not have a quid pro quo for Government no-shows.

While we agree with the USTRANSCOM intent to use performance factors in the USC-6 arrangement, we believe that for the USC-6 arrangement to be fully effective, the contract should include downward rate adjustments for Category B and C performances. Such downward rate adjustments should be established in the USC-6 contract and enforced by USTRANSCOM. Without such adjustments the USC-6 contract will not fully correct the shortfalls in the USC-5 arrangement and relate profit or fee to results achieved by the contractor, compared with specific targets.

## **Management Comments on the Finding**

USTRANSCOM agreed with the finding and provided additional comments on the issues in the finding. See Appendix B for a summary of management comments provided and our response.

## **Recommendation, Management Comments, and Our Response**

**B. We recommend the Commander, United States Transportation Command employ the proposed Universal Services Contract 6 strategy when the contracts are awarded so that the carriers with on-time deliveries are rewarded with first preference on cargo bookings and receive payment equal to the full rate and that carriers with lower rated delivery status receive reduced payments.**

### ***USTRANSCOM Comments***

USTRANSCOM did not agree with Recommendation B. USTRANSCOM stated that USC-6 does differentiate poor performers from better performers through use of a Performance Assessment Matrix and Best Value Selection Criteria that allows Government shippers to book with preference for U.S. Flag carriers with the best performance. USTRANSCOM noted that the same criteria also consider in-transit visibility and delivery in good order and condition. While USTRANSCOM agreed that USC-6 does not price a reduced rate for substandard performance scores, it believed that USC-6 instead reserves the Government's right to withhold cargo bookings from poor performers as an incentive to better performance. USTRANSCOM also believed that use of the USC-6 Performance Assessment Matrix would incentivize better performance, but that implementing our recommendation to amend the USC-6 contract would unnecessarily put its contractor partnership at risk.

### ***Our Response***

Although USTRANSCOM disagreed with the recommendation, the USC-6 contract awarded January 30, 2009, includes provisions to reward carriers with on-time deliveries, which partially satisfies the intent of our recommendation. On-time delivery is the major factor in the formula for determining contractors' performance. We believe that USTRANSCOM cargo booking incentives should be designed to relate profit or fee to results achieved by the contractor, compared with specific targets. Thus, we request further comment from USTRANSCOM regarding achieving better contractor performance through booking and payment incentives.

## **Finding C. Annual Sizing of the Fleet in Sea Transportation**

Improvements are needed in the implementation and management of DoD sealift capability fleet sizing. Specifically, USTRANSCOM did not adhere to DoD requirements to annually determine the number of DoD-controlled ships to meet peacetime and wartime requirements for sealift capability. Furthermore, USTRANSCOM has not issued policy and guidance for monitoring the annual sizing of the sealift fleet of organic and charter vessels to support DoD strategic sealift requirements. USTRANSCOM did not perform annual sizing because it believed that sizing is performed on a daily basis due to changing requirements for sealift assets. As a result, the course of action taken by USTRANSCOM in documenting a sizing of the fleet will limit its ability for long-range planning of activities (that is, training exercises and troop rotation/transportability). It could also result in coordination problems and increase cargo transportation costs by having smaller volumes of cargo assigned to different vessels.

### **Sea Transportation Fleet Sizing Guidance**

Instruction 4500.57 states that the mix of commercial and organic capacity supporting DoD requirements is dynamic; nevertheless, at least annually the Commander, USTRANSCOM will determine the number of organic and chartered ships (that is, collectively, the DoD-controlled fleet) required to meet peacetime, contingency, and wartime projected requirements. Directive 4500.09E states the National Defense strategy of the United States requires a strong Defense Transportation System operating within a national transportation system that is fully responsive and globally capable of meeting personnel and materiel movement requirements of the DoD across the range of military operations. This strategy requires that an optimum mix be achieved that matches Defense requirements with the various modes and methods of transportation, both military and commercial. DoD Directive 5158.04, “United States Transportation Command,” July 27, 2007, (Incorporating Administrative Change 1, September 11, 2007), states the Commander, USTRANSCOM will provide effective and efficient air, land, and sea transportation for DoD in times of peace.

Defense Transportation Regulation 4500.9-R, “Part III Mobility,” states USTRANSCOM will provide air, land, and sea transportation in peace and war as the DoD single manager for transportation other than Service-unique or theater-assigned transportation assets. The Regulation also states USTRANSCOM will align traffic management and distribution process responsibilities to achieve optimum responsiveness, effectiveness, and economy in times of peace and war. The Regulation further states that USTRANSCOM will coordinate the forecasting and execution of validated transportation requirements on behalf of DoD in both peace and war, to include channel approval. The Regulation states that USTRANSCOM will advise the Joint Staff and other DoD Components when there is insufficient capability to meet requirements and make recommendations for actions to alleviate the shortfall.

## **Documenting Sizing of the Fleet**

Improvements are needed in the implementation and management of DoD sealift capability fleet sizing. Specifically, USTRANSCOM did not adhere to DoD requirements to annually determine the number of DoD-controlled ships to meet peacetime and wartime requirements for sealift capability. USTRANSCOM is required to determine the mix of commercial (scheduled service and charter) and organic capacity to support DoD requirements. USTRANSCOM has not carried out this systematic procedure for documenting the annual sizing of the fleet. We found no USTRANSCOM documentation to support the determination of the number of chartered and organic vessels needed to support DoD requirements on an annual basis.

## **Annual Sizing of the Fleet Management and Oversight**

USTRANSCOM has not issued policy and guidance for monitoring the annual sizing of the sealift capability fleet of charter and organic vessels to support DoD strategic sealift requirements. Written policy concerning the procedures for performing the annual sizing of the fleet is limited to DoD policy. According to USTRANSCOM officials, the annual sizing of the fleet was not conducted during FY 2008 because it was addressed on a continuous basis throughout the course of each year. USTRANSCOM officials believed the primary importance was to adhere to requirements as determined by DoD mobility studies, as well as meeting more emergent Combatant Command and Service requirements. In doing so, commercial, organic (both Navy and long-term charter), and RRF organic vessels are considered in meeting those requirements. USTRANSCOM personnel stated that, in accordance with Instruction 4500.57, sizing of the fleet occurs on an ongoing basis due to continuous changes in requirements, but no formal USTRANSCOM policy, process, or procedures exist.

## **Meeting Annual Sizing of Fleet Requirements**

The course of action taken by USTRANSCOM in documenting a sizing of the fleet will limit its ability for long-range planning of activities (that is, training exercises and troop rotation/transportability) and could result in coordination problems and increase cargo transportation costs by having smaller volumes of cargo assigned to different vessels. The undocumented sizing procedure also reduces transparency and visibility to USTRANSCOM's sea transportation components (SDDC and MSC), and to the Maritime Administration, causing ship selection and activation to potentially become a longer process. USTRANSCOM needs to establish internal controls for monitoring and justifying DoD's strategic sealift capability. This will ensure that sufficient organic (military and civil maritime) resources are available to meet Defense deployment and essential requirements in support of our national security strategy and to meet wartime sealift requirements. This will enable USTRANSCOM to establish a formal process for documenting the annual sizing of United States sealift capability to support this country's Defense strategy, including ongoing combat operations, and to maintain the domestic economy in wartime.

## **Management Comments on the Finding**

The Deputy Under Secretary did not comment on the Finding. USTRANSCOM agreed with the finding.

## **Recommendation, Management Comments, and Our Response**

**C. We recommend the Commander, United States Transportation Command develop specific policy and guidance that assigns roles and responsibilities for performance of an annual documented analysis that the DoD sealift fleet is adequately sized to meet sealift capability for future peacetime and wartime requirements effectively and efficiently.**

### ***USTRANSCOM Comments***

USTRANSCOM agreed with Recommendation C. USTRANSCOM stated that it will publish an annual Size of the Fleet Report in conjunction with USTRANSCOM's annual Ready Reserve Fleet Guidance. USTRANSCOM also noted that it will assess the best value of long-term time charters (to include cost, schedule, and capacity) to meet projected requirements. USTRANSCOM stated that where no activated organic vessel or time-chartered commercial vessel is available to meet emergent requirements at the time of booking, it will review available commercial transportation options to select the most effective, most efficient transportation available.

### ***Our Response***

USTRANSCOM comments were responsive to the intent of Recommendation C and no further comments are required.

## **Appendix A. Scope and Methodology**

We conducted this performance audit from May 2008 through June 2009, in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We performed audit work to evaluate the effectiveness of policies and procedures used to ensure that activated Government-owned and-chartered vessels are used to the maximum extent prior to procuring commercial transportation to SWA. We contacted the officials of the Office of the Under Secretary of Defense for Acquisition, Technology, and Logistics; USTRANSCOM; SDDC; MSC; the Maritime Administration; and the Department of the Army (G-4). We collected, reviewed, and analyzed documents dated June 2007 through October 2008.

We reviewed SDDC and MSC records of 249 USTRANSCOM liner, charter, and organic ship movements covering the period of January 1, 2007, through March 31, 2008, made in support of GWOT. We selected four ship movements valued at \$16.3 million to illustrate the cost between liner vessels versus chartered vessels. We obtained a universe of 180 liner movements of Government cargo to and from SWA during the time frame of January 1, 2007, through March 31, 2008, in direct support of GWOT. The liner movements comprised 72 percent (180 of 249) of all movements in our universe. USTRANSCOM was able to identify \$195 million in cost for 81 of the 249 ship movements covering the period of January 1, 2007, through March 31, 2008.\*

We obtained cost data and performed cost comparison on a liner vessel versus a chartered vessel to determine the best solution to carry the cargo and reviewed recommended vessel selection through analysis and discussion with SDDC personnel. We also reviewed the USC-5 ship contracts that were provided by management at SDDC.

We interviewed and gathered information from USTRANSCOM, MSC, and Maritime Administration personnel who were responsible for implementing the Transportation and Traffic Management standards within their organizations. We reviewed the policies for selecting the most cost-efficient vessel and the policy for the annual sizing of the fleet.

## **Use of Computer-Processed Data**

We obtained computer-processed data from SDDC and MSC relating to the liner, charter, and organic ship movements carrying DoD cargo. The data elements included sail dates, measurement tons of cargo, and the cost of the ship movement and were obtained from several different information systems. We considered the data valid, meaning that the data actually represented what we thought was being measured, based on conversations with data users at those Components. Computer-processed data were not key evidence in

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\* USTRANSCOM was not able to provide us the costs for the remaining 168 (of 249) ship movements because of lack of staffing and pending contractor billings of costs.

supporting the findings and conclusions in Findings B and C. We did not verify the cost, square footage, and measurement ton data provided by SDDC and MSC or the data we obtained from the SDDC system.

## **Prior Coverage**

During the last 5 years, the Department of Defense Inspector General (IG) and the Department of the Army have issued seven reports discussing USTRANSCOM use of commercial sealift. Unrestricted DoD IG reports can be accessed at <http://www.dodig.mil/audit/reports>.

### ***DoD IG***

DoD IG Report No. D-2008-051, “Surface Deployment and Distribution Command Hawaii/Guam Shipping Agreement,” February 19, 2008

DoD IG Report No. D-2008-027, “Air Force Use of Global War on Terrorism Supplemental Funding Provided for Procurement and Research, Development, Test, and Evaluation,” November 21, 2007

DoD IG Report No. D-2007-105, “United States Transportation Command Compliance With DOD Policy on the Use of Commercial Sealift,” June 21, 2007

### ***Army***

Army Audit Agency, Audit Report A-2009-0035-ALR, “Customer Billing Rates – Liner Business Shipments,” March 25, 2009

Army Audit Agency, Audit Report A-2009-0069-ALL, “Management of Shipping Containers in Southwest Asia,” March 19, 2009

Army Audit Agency, Audit Report A-2009-0033-ALL, “Management of Shipping Containers Southwest Asia – Afghanistan,” January 22, 2009

Army Audit Agency, Audit Report A-2009-0026-ALR, “Container Detention Billing for the Global War on Terrorism,” January 15, 2009

## **Appendix B. Management Comments on Findings A and B and Our Response**

This appendix provides our detailed response to comments from the Deputy Under Secretary of Defense for Logistics and Materiel Readiness (responding for the USD(AT&L)), and the Chief of Staff, USTRANSCOM regarding a draft version of the report findings. The deputy did not specifically agree or disagree with the finding, but did provide technical comments on two topics discussed in the finding. The deputy provided comments on the recommendations as well as editorial comments on individual report sections. The Chief of Staff, USTRANSCOM stated that, while he agreed with some of the findings, USTRANSCOM highlighted those findings reached using inaccurate information. The chief of staff further noted that his response identified data he believes were incorrect. The complete text of those comments can be found in the Management Comments section of this report.

### **Management Comments on Finding A**

#### ***Deputy Under Secretary Comments on Consistency of USTRANSCOM Policies***

The deputy requested that we revise a draft report statement that USD(AT&L) and USTRANSCOM officials were attempting to agree upon a joint interpretation of DoD Instruction 4500.57 language. The deputy noted that USD(AT&L) and USTRANSCOM are working together to ensure policy consistency, rather than attempting to agree upon a joint interpretation of policy. The deputy also requested that the report be revised to remove language about USD(AT&L) discussions with USTRANSCOM regarding USD(AT&L) concerns to a draft of USTRANSCOM Policy Directive 24-7. The deputy noted that the USD(AT&L) specific concerns added no value to the vessel selection discussion and only highlighted points made in informal discussions.

#### ***Our Response***

Based on the deputy's comments, we revised the discussion on the Office of the Under Secretary of Defense View of Vessel Selection Requirements in the final report to state that USD(AT&L) and USTRANSCOM officials are working to ensure that USTRANSCOM procedures are consistent with DoD Instruction 4500.57 language that when more than one sealift alternative is available, relevant factors such as vessel schedules, customer requirements, cost, and capacity be evaluated and documented to support the justification for each sealift vessel selection decision. We also revised the final report to remove some of the discussion on initially expressed concerns on the draft of USTRANSCOM Policy Directive 24-7. Further, we considered the editorial comments that the deputy provided to the report and made revisions where appropriate.

## ***USTRANSCOM Comments on Consistency of USTRANSCOM Policies***

The chief of staff stated USTRANSCOM has initiated revisions to its internal policy directives to align with DoD Policy Directives and Instructions. This would put documented processes in place to ensure all commercial transportation resources are considered and utilized in the most efficient and most effective manner. The chief of staff further stated USTRANSCOM is updating its Standard Operating Procedures to direct that, not later than 30 days following a USTRANSCOM Force Flow Conference (held twice each year), the USTRANSCOM maritime and surface components will prepare and present a sealift charter and liner cost proposal based upon forecasted requirements to the Commander, USTRANSCOM. He also stated their newly instituted Fused Operations Center will further leverage effective and efficient multi-modal distribution operations.

### ***Our Response***

We agree with the proposed USTRANSCOM vessel selection changes and hope that those changes will lead to greater consistency of USTRANSCOM policies with DoD transportation guidance.

## ***USTRANSCOM Comments on Documentation of Course of Action Decisions***

The chief of staff disagreed with the draft report example of an SDDC-recommended vessel selection course of action for transportation of Mine Resistant Ambush Protected Vehicles. The chief of staff noted that the draft report cited that no documentation existed for the selection of Course of Action 2 (USTRANSCOM use of a combination of liners and a chartered vessel) but that USTRANSCOM archives suggested that because the vehicles were in such high demand, every available ship that could move them was considered an option (including liner, charter, and activated Government vessels), with a priority for on-time delivery. The chief of staff concluded SDDC worked to minimize wait times at the ports and deliberately chose not to wait and aggregate sufficient numbers of vehicles to justify the charter of entire vessels. Consequently, regularly scheduled commercial liner service provided the most reliable means to meet the Combatant Commander's time definite delivery requirements.

The chief of staff disagreed with a draft report conclusion that while all three potential alternatives satisfied the validated requirement, the SDDC recommended Course of Action 2 because it supported the established USTRANSCOM commercial first policy. The chief of staff stated that the commercial first policy is instead derived from long-standing DoD and National Security Policy Directives, which essentially state that the U.S.-owned commercial ocean carrier industry will be relied upon to provide sealift in peace, crisis, and war.

The chief of staff believed that a “mock” business case analysis presented in the report, between commercial and organic service providers, was misleading because it did not account for operational contexts such as those with delivery of the Mine Resistant

Ambush Protected Vehicles and did not reflect the total cost of the courses of action being evaluated. The chief of staff further noted that organic costs described in the report reflect only the cost to operate vessels for that specific time period. The chief of staff stated that the commercial costs reflect the military-industry partnership to provide sealift capability from U.S. Flag vessels, U.S. citizen crews, and access to associated global intermodal networks, which was also worthy of consideration and was a significant cost avoidance of having to maintain this same capability organically.

### ***Our Response***

We agree that the priority for on-time delivery to get the high-demand Mine Resistant Ambush Protected Vehicle into SWA would be a justified reason to select the highest-cost delivery alternative. USTRANSCOM did not include this rational, or any rational, to justify the selection of Course of Action 2 in the official documentation to the course of action decision. We revised the discussion in the course of action presentation to note the subsequent USTRANSCOM reasoning to select Course of Action 2. While the commercial first policy is derived from long-standing DoD and National Security Policy Directives, the USTRANSCOM commercial vessel selection process does not evaluate whether a commercial liner or a Government-chartered vessel is the most cost-effective alternative to the extent required by DoD Directive 4500.09E and DoD Instruction 4500.57.

### ***USTRANSCOM Comments on Commercial Cost Analysis***

The chief of staff specifically questioned Table 1 and Table 2 cost comparisons of measurement tonnage carried by selected liner and charter vessels. USTRANSCOM officials believed the comparison should have identified the specific cargo carried and whether that cargo was stowed as break-bulk or containerized cargo. USTRANSCOM noted that break-bulk cargo rates varied, and provided an example of variations in rates for light vehicles, heavy vehicles, and general cargo. The chief of staff also stated that Table 2 compared two different types of vessels that did not permit an “apples to apples” comparison from a cost perspective.

The chief of staff also noted that liner rates cited in the tables did not subtract a DoD “Cash Recovery Fee” imposed in FY 2007 and 2008, and suggested that by removing the fee from the totals would reduce the cost of the *Great Land* (in Table 1) from \$7.4 to \$4.8 million and the cost of the *Honor* (in Table 2) from \$4.3 to \$3.1 million.

### ***Our Response***

As stated in the report, we selected one ship movement composed of similar data from each liner and charter category in order to show an illustrative comparison of costs and efficiencies of similar liner and charter redeployments. The examples include the actual length of time from port of embarkation to port of debarkation, actual amount of cargo moved, and the actual total cost of liner and charter movements. The data reviewed did not identify the ship type, the specific cargo carried, or whether that cargo was stowed as break-bulk or containerized cargo. The data also made no reference regarding USTRANSCOM-charged fees applied by USTRANSCOM DoD customers for USTRANSCOM services. According to MSC officials interviewed for this audit, the

Government moves cargo in containers or as break-bulk shipments. If the shipments are vehicles or other break-bulk cargo, the Government pays per measurement ton. The cost of a liner ship is dependent on the cargo being moved. The larger the cargo (either in measurement tons or containers), the higher the cost will be. In contrast, the cost of a chartered ship will be the same regardless of type, amount, or weight of cargo moved because the Government pays to charter the whole ship. Our report examples showed that USTRANSCOM should perform cost analyses when a liner service ship and a ship available for commercial charter are determined to be available to move cargo, particularly in instances when the cargo requirement is larger than a specified amount.

In a discussion to the written management comments, USTRANSCOM officials stated to us that the USTRANSCOM “Cash Recovery Fee” was withdrawn as of September 30, 2008, and is no longer assessed. USTRANSCOM was not responsive to our requests for further data on the “Cash Recovery Fee.” Thus, based on the audit work performed, we cannot support or validate the USTRANSCOM management comments regarding additional liner cost factors. Our analysis was for illustrative purposes only to show situations where commercial liner transportation costs could be compared to voyage charter ships. Ship type, type of cargo, or the impact of USTRANSCOM-assessed fees should be considered in actual USTRANSCOM analyses.

## **Management Comments on Finding B**

The Deputy Under Secretary did not comment on Finding B. The Chief of Staff, USTRANSCOM agreed with Finding B with further comment noted below.

### ***USTRANSCOM Comments on SDD Administration of Liner Contract***

The chief of staff stated that USTRANSCOM records indicated that the majority of missed RDDs were associated with cargo booked to geographic areas for which liquidated damages did not apply. The chief of staff also noted that exchange of liquidated damage claims with U.S. Flag commercial carriers did not incentivize the carrier’s on-time performance. The chief of staff noted one example of USTRANSCOM responding to a major USC carrier’s substandard performance by intentionally withholding from the carrier more than 21,000 containers (approximately \$54 million in revenue) and instead providing the cargo to another USC carrier with significantly better, and faster, performance. The chief of staff stated in the response to that lost revenue, the first carrier significantly improved performance and earned back some of the business previously lost. He further stated using this lesson learned, USTRANSCOM’s USC-6 contract abandons the “liquidated damage scheme” for a far more effective arrangement whereby carriers are awarded business based on their performance.

### ***Our Response***

While we agree with the USTRANSCOM actions noted in the above example of carrier substandard performance, we were not able to verify the example as the chief of staff did not provide details or supporting documentation. We also continue to believe, as noted in the report discussion regarding the USC-6 negotiations, that carriers with on-time

deliveries should be rewarded with first preference on cargo bookings and receive payment equal to the full rate, and that carriers with lower rated delivery status receive reduced payments.

# Office of the Under Secretary of Defense for Logistics and Materiel Readiness Comments

Final Report  
Reference



DEPUTY UNDER SECRETARY OF DEFENSE FOR  
LOGISTICS AND MATERIEL READINESS  
3500 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3500

APR 13 2009

## MEMORANDUM FOR PROGRAM DIRECTOR, ACQUISITION AND CONTRACT MANAGEMENT, DODIG

THROUGH: DIRECTOR, ACQUISITION RESOURCES AND ANALYSIS *4/14/2009*

SUBJECT: Response to DoDIG Draft Report on Organic Ship Utilization in Support of the Global War on Terror (Project No. D2008-D00AB-0193.000)

As requested, I am providing responses to the general content and recommendations contained in the subject report. Detailed technical comments for your consideration are attached.

### **Recommendation A.1.:**

We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics issue guidance to the Commander, United States Transportation Command stating that:

- a. DoD Instruction 4500.57, "Transportation and Traffic Management," does not endorse a policy of liner first election; and
- b. All available commercial transportation assets (to include liners and charters) be reviewed simultaneously to determine the most cost-effective mode of commercial sealift transportation

**Response:** Concur. We will issue guidance to the Commander, USTRANSCOM, to ensure that their procedures are consistent with DoD policy.

We appreciate the opportunity to review the subject draft report. My POC is

A handwritten signature in black ink, appearing to read "J. Bell".

For Jack Bell

Attachment:

As stated



Attachment not included as technical in nature.

# United States Transportation Command Comments



UNITED STATES TRANSPORTATION COMMAND  
508 SCOTT DRIVE  
SCOTT AIR FORCE BASE, ILLINOIS 62225-5357

13 April 2009

MEMORANDUM FOR DEPARTMENT OF DEFENSE INSPECTOR GENERAL  
ATTN: PROGRAM DIRECTOR FOR ACQUISITION AND  
CONTRACT MANAGEMENT

FROM: TCCS

SUBJECT: Response to DOD-IG Draft Report on “Organic Ship Utilization in Support of the Global War on Terror” (Project No. D2008-D00AB-0193.000) dated 12 Mar 09

1. We have reviewed the subject Draft Report. While we agree with some of the findings and recommendations, we have highlighted those findings reached using inaccurate information. We have outlined our response to each finding and recommendation and identified the data we believe is incorrect.
2. **Finding A** concludes that USTRANSCOM “does not evaluate whether a commercial liner or Government-chartered vessel is the most cost-effective alternative and does not simultaneously consider commercial liner and charter alternatives;” and that USTRANSCOM does not document its selection rationale due to inconsistencies with DOD Directives and Instructions.

**RESPONSE: CONCUR.** USTRANSCOM has initiated revisions to our internal policy directives to align with DoD Policy Directives and Instructions. These changes will put documented processes in place to ensure all commercial transportation resources are considered and utilized in the most efficient and cost effective manner. In addition, we are updating our Standard Operating Procedures (SOP) to direct that not later than 30 days following USTRANSCOM’s Force Flow Conference (held twice each year), our maritime component, Military Sealift Command (MSC) and our surface component, Surface Deployment and Distribution Command (SDDC) will prepare and present to Commander USTRANSCOM a sealift charter and liner cost proposal based upon forecasted requirements. Finally, our newly instituted Fused Operations Center – where representatives from all USTRANSCOM components will be co-located -- will further leverage effective and efficient multi-modal distribution operations.

2.a. **Recommendation A.1.a:** “We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics issue guidance to the Commander, United States Transportation Command stating that DOD Instruction 4500.57, “Transportation and Traffic Management,” does not endorse a policy of liner first election.”

**RESPONSE: NON-CONCUR.** USTRANSCOM believes the guidance in current DoD Policy Directives and Instructions is sufficient.

2.b. **Recommendation A.1.b:** "We recommend that the Under Secretary of Defense for Acquisition, Technology, and Logistics issue guidance to the Commander, United States Transportation Command stating that all available commercial transportation assets (to include liners and charters) be reviewed simultaneously to determine the most cost-effective mode of commercial sealift transportation."

**RESPONSE: NON-CONCUR.** Again, no additional guidance is required. USTRANSCOM believes the guidance regarding efficiency, effectiveness and Voluntary Intermodal Sealift Agreement priority is sufficient. And USTRANSCOM will adjust internal operating procedures as discussed in paragraph 2.

2.c. **Recommendation A.2:** "We recommend that the Commander, United States Transportation Command revise United States Transportation Command Policy Directive 24-7, "Strategic Sealift Vessel Selection Policy," to be consistent with Department of Defense Directive 4500.09E, "Transportation and Traffic Management," and Instruction 4500.57 by including language noting:

- 1) When scheduled commercial ocean liner service would not cost-effectively meet DOD requirements, or when dedicated assets would best fulfill operational requirements, United States Transportation Command may charter vessels;
- 2) A list of commercial priorities contained in DOD Instruction 4500.57;
- 3) When more than one sealift alternative is available, relevant factors such as vessel schedules, customer requirements, cost, and capacity will be evaluated and documented to support the justification for each sealift vessel selection decision;
- 4) Activated organic ships used should receive priority over commercial alternatives if they can support mission requirements within the scope and timing of their activation orders; and
- 5) Require United States Transportation Command to support sealift options considered and document the justification for the final vessel selection."

**RESPONSE:**

**A.2.a. CONCUR.** USTRANSCOM will adjust internal operating procedures to ensure that all factors, including cost, will be considered when making vessel selection.

**A.2.b. CONCUR.** Current and proposed USTRANSCOM procedures use the same commercial priorities in DoDI 4500.57.

**A.2.c. CONCUR.** Revised operating procedures will contain the reference language and ensure decisions are documented.

**A.2.d. NON-CONCUR.** Activated organic ships and commercial vessels chartered to the United States have priority over other commercial alternatives in the current USTRANSCOM operating procedures.

**A.2.e. CONCUR.** USTRANSCOM will document vessel selection decisions.

3. **Finding B** concludes that USTRANSCOM's Military Surface Deployment Distribution Command (SDDC) "does not enforce certain aspects" of Universal Service Contract No. 5 (USC-5), specifically the liquidated damage provisions, "associated with Contractor failure to meet Required Delivery Dates" (RDD). Finding B also concludes that USC "Contractors do not request payments associated with Government no-shows;" or more accurately, do not seek to enforce liquidated damage provisions for the Government's failure to tender cargo as booked.

**RESPONSE: CONCUR.** Our records indicate that the majority of missed RDDs were associated with cargo booked to geographic areas for which liquidated damages did not apply. At the same time, however, we learned that the exchange of liquidated damage claims with our US Flag commercial partners simply did not incentivize the on-time performance we require. Therefore, in response to substandard performance by a major USC Carrier USTRANSCOM intentionally withheld from that Carrier over 21,000 containers (approximately \$54M in revenue). That container business was instead given to another USC Carrier with significantly better, and faster, performance. And in response to that lost revenue, the Carrier in question significantly improved performance and earned back some of the business previously lost. Using this lesson learned, USTRANSCOM's latest contract -- USC-6 -- abandons the "liquidated damage scheme" for a far more effective arrangement whereby carriers are awarded business based on their performance.

3.a. **Recommendation B:** "We recommend the Commander, United States Transportation Command employ the proposed Universal Services Contract 6 strategy when the contracts are awarded so that the carriers with on-time deliveries are rewarded with first preference on cargo bookings and receive payment equal to the full rate and that carriers with lower rating delivery status receive reduced payments."

**RESPONSE: NON-CONCUR.** Universal Service Contract No. 6 (USC-6) was awarded on 30 Jan 09. The USC-6 contract does, in fact, differentiate poor performers from better performers. Through use of a Performance Assessment Matrix and Best Value Selection Criteria, government shippers will book with a preference for US Flag carriers with the best performance. The same Performance Assessment Matrix and Best Value Selection Criteria also consider in-transit visibility and delivery in good order and condition. USC-6 does not price a reduced rate for substandard performance scores but, instead, reserves the Government's right to withhold Unit Move cargo bookings from poor performers as an incentive to better performance. USTRANSCOM's partnership with Industry is critical to supporting the warfighter. Amending the USC-6 contract at this stage would put that partnership at risk unnecessarily. We believe that the Performance Assessment Matrix of USC-6 will incentivize better performance.

4. **Finding C** states that "USTRANSCOM did not adhere to DOD requirements to annually determine the number of DOD-controlled ships to meet peacetime and wartime requirements for sealift capability."

**RESPONSE: CONCUR.**

4.a. **Recommendation C:** "We recommend the Commander, United States Transportation Command develop specific policy and guidance that assigns roles and responsibilities for

performance of an annual documented analysis that the DOD sealift fleet is adequately sized to meet sealift capabilities for future peacetime and wartime requirements effectively and efficiently.”

**RESPONSE: CONCUR.** USTRANSCOM will publish an annual Size of the Fleet Report in conjunction with USTRANSCOM’s annual Ready Reserve Fleet Guidance. Following semi-annual Force Flow Conferences, USTRANSCOM will assess the best value of long- term time-charters (to include cost, schedule, and capacity) to meet projected requirements. Where no activated organic vessel or time-chartered commercial vessel is available to meet emergent requirements at the time of booking, USTRANSCOM will review available commercial transportation options to select the most effective, most efficient transportation available to meet our strategic requirements.

**5. Documentation of Course of Action Decisions (page 7)** The report at page 7 reviews three Courses of Action (COA) pertaining to the movement of Mine Resistant Ambush Protected Vehicles (MRAPs). The Draft Report concludes that “while all three potential alternatives satisfied the validated requirement, SDDC recommended COA 2 because it supports the established USTRANSCOM commercial first policy. . .” Significantly, the Draft Report cites no documentation for that proposition. In fact, USTRANSCOM archives suggest otherwise. When the MRAPS were first considered for surface movement, their production schedule was fairly uncertain and MRAPS were in such high demand that they were moved to theater as they rolled off the assembly line. Every available ship that could move an MRAP was considered an option (including liner, charter and activated government vessels). The priority was on-time delivery. As a result, SDDC worked to minimize wait times at the ports and deliberately chose not to wait and aggregate sufficient numbers of MRAPs to justify the charter of entire vessels. Consequently, regularly scheduled commercial liner service provided the reliable means to meet the Combatant Commander’s time definite delivery requirements.

The report further states that SDDC choose COA #2 in deference to a USTRANSCOM commercial first policy. USTRANSCOM has no such policy. The “commercial first” policy is instead derived from long standing DOD and National Security Policy Directives which essentially state that the US-owned commercial ocean carrier industry will be relied upon to provide sealift in peace, crisis and war.

Finally, the “mock” business case analysis presented in the report, between commercial and organic service providers, are misleading as they do not account for the compelling operational context described above and do not reflect the total cost of the COAs being evaluated. Specifically, the organic costs described in the report reflect only the cost to operate a vessel for that specific time period. Conversely, the commercial costs reflect the military-industry partnership that provides sealift capability from US Flag vessels, US citizen crews and access to associated global intermodal networks. And also worthy of consideration, is the significant cost avoidance of having to maintain this same capability organically.

**6. Commercial Cost Analysis Comments (pages 10 & 11)**

Page(s) 7 - 8

Page(s) 9 - 11

Page(s) 9 - 11

USTRANSCOM questions the cost comparisons developed in Tables 1 and 2 at page 11 of the Draft Report. When comparing the Measurement Tonnage (MT) carried by two dissimilar vessels, the Draft Report fails to identify the specific cargo carried and whether that cargo was stowed as break-bulk or containerized cargo. Break-bulk carriers charge different rates for different types of cargo. For example, a MT of light vehicles has a different freight rate than a MT of heavy vehicles or a MT of general cargo. Table 2 compares two different types of vessels, M/V HONOR, a pure Car and Truck Carrier (RO/RO), and M/V AMERICAN TERN, a small combination container/break-bulk ship. These two vessels do not permit an "apples to apples" comparison from a cost perspective.

Finally, the liner rates cited by the Draft Report do not subtract the OSD directed "Cash Recovery Fee" imposed in FY 2007-08. Removing the cost recovery fee (from the totals in Table 1) alone shifts the cost of the M/V GREAT LAND from \$7.4M to \$4.8M. Similarly, the \$4.3M cost of the M/V NONOR (in Table 2) becomes \$3.1M.

6. USTRANSCOM POC for subject audit is [REDACTED]  
[REDACTED]

  
WILLIAM H. JOHNSON  
Major General, U.S. Army  
Chief of Staff

cc:  
USTRANSCOM/TCDC  
TCCS  
TCJ3  
TCJ5/4  
TCJ8  
TCAQ  
TCAC  
TCIG  
MSC  
SDDC





# Inspector General Department of Defense